Scott Blackley
*Controller and Principal Accounting Officer*

September 25, 2012

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2012-200

Dear Ms. Cosper:

Capital One Financial Corporation ("Capital One") is a diversified financial services company with over $296 billion in assets that offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients. We appreciate the opportunity to provide comments on the Proposed Accounting Standards Update, *Financial Instruments (Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk* (the "proposal" or "proposed disclosures"), recently issued by the Financial Accounting Standards Board (the "FASB"). As a financial services company, our feedback is focused on the proposed disclosures applicable to financial institution preparers.

Capital One appreciates the importance of providing relevant disclosures about an entity's exposure to liquidity and interest rate risk. Presenting this information in a consistent format is vital for financial statement users to understand the information and evaluate an entity both over time and relative to its peers. Equally important, the disclosures should reflect how each entity views and manages such risk. We believe the proposed disclosures do not adequately capture management's expectations and ability to manage these risks, resulting in potentially misleading information for financial statement users.

*Liquidity Risk*
The proposed liquidity gap maturity analysis presents the carrying amounts of financial assets and liabilities segregated into time intervals by their expected maturities. The intent of the table is to provide users with information that helps them assess the risk that an entity will encounter difficulty in meeting its obligations[1]. By requiring the table to reconcile to the balance sheet (in other words, assuming a run-off position), the proposed liquidity gap maturity analysis presents a very short-sighted view of liquidity as it focuses solely on operating rather than contingent liquidity. The analysis will not provide any insight into how an entity's financial assets and liabilities would likely be affected by a stressed liquidity environment, nor how management would respond to such a scenario. Moreover, the analysis does not reflect the dynamic models and complex forward-looking assumptions financial institutions use to ensure we maintain sufficient liquidity to withstand significant degradation in the funding markets and/or deposit attrition. We, therefore, question whether the intent of this disclosure will be achieved.

Banks currently use stress testing as a critical tool in their liquidity analyses. These stress tests have become increasingly rigorous since the financial crisis. Stress testing under various scenarios and time horizons has proven invaluable to banks in understanding and addressing any

[1] Proposal paragraph BC10

potential liquidity weaknesses they may have. The banking agencies have also been acutely focused on ensuring that banks have robust, meaningful liquidity frameworks. The liquidity rules that will be promulgated via Basel and Dodd-Frank Section 165[2] will continue to build on the importance of stress testing and will put in place an extensive qualitative and quantitative liquidity risk management framework. Rather than creating an additional, less meaningful and potentially confusing view of liquidity by continuing with this proposal, we recommend the FASB coordinate its efforts with those of the banking agencies to develop disclosure requirements that meet users' need for comparability and reflect how each entity monitors liquidity risk. Such an approach would leverage all parties' respective work to date and could likely be completed within the same timeframe that financial institutions would have needed to implement the FASB's proposal. Preparers and users should also be invited to participate in the coordinated efforts to ensure a consistent understanding of users needs among all parties.

*Interest Rate Risk*
The proposed interest rate sensitivity analysis requires financial institutions to present the effect of specified hypothetical, instantaneous interest rate changes on after-tax net income for the 12-month period immediately after the reporting date and on shareholders' equity. This analysis is similar to market risk disclosures currently required by the Securities and Exchange Commission ("SEC") within the Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") section of Forms 10-K and 10-Q. Although the intent of both the MD&A interest rate sensitivity analysis and the FASB's proposal is to show quantitatively the impact hypothetical changes in interest rates would have on future earnings of the company, the FASB's proposal is more prescriptive in how such impact should be evaluated and presented. For example, the FASB's proposal specifies the hypothetical interest rate scenarios to be analyzed, while the SEC's market risk disclosure requirements in MD&A allows entities to choose one or more scenarios. Additionally, the MD&A requirements permit entities to choose how the impact is quantified (e.g. potential loss in future earnings, fair values, or cash flows) whereas the FASB's proposal requires presentation of the impact to after-tax net income and shareholder's equity. If the FASB's proposed sensitivity analysis is finalized, the different requirements will likely result in confusion for financial statement users when comparing MD&A information to that contained within the footnotes.

Given the inherent forward-looking nature of the analysis, we believe this information should remain within MD&A where statutory safe harbor provisions can be applied to forward-looking information when accompanied by meaningful cautionary statements. The use of similar interest rate shifts and quantification methods by all financial institutions would address users' request for standardized and consistent interest rate risk disclosures. Because we recognize that only the SEC can modify MD&A requirements, we recommend the FASB provide the SEC the user feedback compiled to date and allow the SEC to determine if more prescriptive MD&A market risk disclosure guidance should be developed.

Regardless of whether the FASB decides to proceed with their interest rate sensitivity proposal or recommend the SEC standardize existing MD&A market risk disclosure requirements, we recommend financial institutions present the interest rate sensitivity impact to net interest income or a defined rate sensitive earnings-at-risk metric, rather than after tax net income. Presenting the

[2] The proposed Section 165 rulemaking currently addresses liquidity risk management requirements, including additional liquidity stress testing, and will explicitly incorporate the final Basel quantitative rules on liquidity at a later date. The Federal Reserve noted that it is working with other U.S. regulators on developing a Basel framework for the U.S. We would expect that a liquidity framework that incorporates Basel's features will be proposed for comment in 2013 with final implementation several months thereafter.

percentage change in net income, inclusive of the non rate-sensitive items can distort the view of interest rate risk exposure on a percentage basis. Capital One currently manages, measures and reports our interest rate exposure based on an earnings-at-risk view. Earnings-at-risk, consisting primarily of net interest income and changes in mark to market items that flow through income, is a more stable metric and better reflects the rate sensitivity of our assets and liabilities.

Additionally, we recommend financial institutions present the interest rate sensitivity from an economic perspective using economic value of equity, rather than shareholders' equity. Cash flows associated with assets and liabilities carried at amortized cost, such as loans and deposits, are affected by changing interest rate environments. However, an analysis presenting only the impact to shareholders' equity would ignore such instruments' related change in value. Given the significance of instruments carried at amortized cost by financial institutions, presenting the impact to shareholders' equity would provide limited additional information for users to assess a bank's interest rate risk. For this reason, most financial institutions, including Capital One, currently monitor interest rate risk based on the economic value of equity. The regulatory agencies define the term "economic value of equity" as "the present value of the expected cash flows on assets minus the present value of the expected cash flows on liabilities, plus or minus the present value of the expected cash flows on off-balance sheet instruments."[3] We further recommend the FASB utilize the regulatory agencies' definition to achieve consistency.

We have provided our responses to the questions for financial institution preparers in Appendix A. If you have any questions about our comments, please contact me.

Sincerely,

/s/ Scott Blackley

Scott Blackley
Controller and Principal Accounting Officer

[3] Source: 61 FR 33166; *Joint Agency Policy Statement: Interest Rate Risk* (June 26, 1996)

**Appendix A**
**Responses to Questions for Financial Institutions**

***Liquidity Risk***

**Question 1:** For a financial institution, the proposed amendments would require a liquidity gap table that includes the expected maturities of an entity's financial assets and financial liabilities. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

**No - If provided sufficient time to implement the proposed amendments, we do not foresee any significant operational concerns or constraints in complying with the liquidity gap table requirement. If the FASB decides to finalize the proposed liquidity gap table, we recommend the guidance clarify that estimated credit losses recorded in the allowance for loan losses should be presented as a total amount within the "Total Carrying Amount" column in order to reconcile to the statement of financial position.**

**Question 3:** The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. Expected maturity is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term expected maturity is more meaningful than the term contractual maturity in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

**Yes - We agree that presenting this information using expected maturity is more meaningful than using contractual maturity. However, as discussed above, the analysis does not reflect how we currently monitor liquidity and therefore, we question the ultimate value of the proposed disclosure. Moreover, a stressed liquidity environment would likely render the analysis obsolete.**

**Question 4:** The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

**No – We do not foresee any significant operational concerns or constraints in complying with this requirement. To ensure consistency among preparers, we recommend the FASB define the term "high quality liquid assets". Additionally, we recommend the guidance clarify how the information should be presented when the consolidated entity (not just one or several reportable segments therein) is a financial institution as defined in paragraph 825-10-50-23A of the proposal. Likewise, additional clarity regarding the level of discussion describing the effect of regulatory, tax, legal, repatriation, and other conditions that could limit the transferability of funds among entities is needed, particularly when the consolidated entity is a financial institution.**

**Question 5:** For depository institutions, the proposed Update would require a time deposit table that includes the issuances and acquisitions of brokered deposits during the previous four fiscal quarters. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

**No - If provided sufficient time to build the necessary reports and establish a process to capture this information, we do not foresee significant operational concerns or constraints in preparing the time deposit table as proposed. To help ensure consistency across entities, we recommend the guidance provide additional clarity regarding how "rollover" time deposits should be presented. For example, if a 30-day certificate of deposit automatically rolls-over to another 30-day period if the depositor does not cash out, should this be included each time it rolls (three times per quarter) or only once at the inception of the deposit?**

**Question 6:** As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?

**No – We do not believe the proposed amendments provide sufficient information for users to develop an understanding of our exposure to liquidity risk because the proposed disclosures are based on a short-term, static view of liquidity which is neither realistic nor how we manage such risk. As discussed above, we recommend that the FASB coordinate its efforts with those of the banking agencies to develop disclosure requirements that meet users' need for comparability and reflect how each company monitors liquidity risk. Preparers and users should also be invited to participate in the coordinated efforts to ensure a consistent understanding of users needs among all parties.**

***<u>Interest Rate Risk</u>***

**Question 13:** The interest rate risk disclosures in this proposed Update would require a repricing gap table. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

**Potentially – Paragraph 825-10-50-23Y(c) of the proposal states the repricing gap table shall include the weighted-average contractual yield for each time interval, by class of financial instrument. While we interpret this to mean the coupon rate of the related instruments, we question whether the intent is actually to present the weighted-average effective yield of the instruments. If the FASB intends to require presentation of effective yield by repricing time interval, we foresee significant operational constraints in compiling this data since our asset liability management ("ALM") system is not designed to incorporate effective yield information. Most notably, purchase premiums or discounts associated with acquired loans are typically accounted for at a pooled level and are not captured in our ALM system. Segregating the pooled purchase premium or discount by the contractual repricing date of the underlying loans will be difficult and likely require significant management judgment. Conversely, if the FASB intends to require presentation of the coupon rates, we question the value of this information since it will exclude all premiums or discounts associated with the instruments.**

**Our existing ALM system is not, nor was it intended to be, an accounting system. Any modifications to the third-party vendor supplied software to capture effective yield**

**information would be for the sole purpose of complying with this disclosure requirement. We would need to work with the vendor to understand whether the software could be modified to capture all components of an effective yield calculation including origination premiums and discounts; purchase premiums and discounts; and for credit cards, past due fees. If the FASB intends for the repricing table to capture the weighted-average contractual yield by repricing interval, we estimate it will take approximately 12 months to create the necessary reports and establish a process for compiling and verifying this information. If we must present the weighted-average effective yield by repricing interval, rather than contractual yield, we estimate it will take an additional six months (total of 18 months) for the reasons previously noted.**

**We are also concerned with providing the duration for each class of financial instrument as we consider such information to be proprietary to our company. Duration calculations for loan assets, specifically mortgages, are derived from internally developed prepayment models or third party vendor models that have been calibrated to the unique characteristics of our loan assets. Likewise, proprietary deposit models are developed for each of the product classes and customer types (demand deposits, money market deposits, negotiable order of withdrawal accounts, savings accounts; consumer, commercial, internet, branch etc.) These models are developed or calibrated based upon empirical data and are unique to the institution. Providing detailed product-level duration information would disclose information that is critical to our balance sheet management strategies. Disclosing the impact to net interest income or earnings-at-risk and the economic value of equity (as we recommend above) adequately provides an investor the appropriate view of interest rate sensitivity while not compromising proprietary modeling results at a product level.**

**Question 14:** The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders' equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders' equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

**Yes – As discussed above, we do not currently evaluate interest rate risk based on after-tax net income or shareholders' equity. Preparing this information would be for the sole purpose of meeting the disclosure requirement and not representative of how we manage interest rate risk. We recommend the FASB provide the SEC the user feedback compiled to date and allow the SEC to determine if more prescriptive MD&A market risk disclosure guidance should be developed. Moreover, the analysis should present the impact to net interest income or earnings-at-risk and economic value of equity, rather than after-tax net income and shareholders' equity.**

**Question 15:** As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to understand your entity's exposure to interest rate risk? If not, what other information would better achieve this objective?

**No – As discussed above, we are concerned the proposed interest rate sensitivity analysis will create confusion when compared to existing MD&A disclosures. We believe the better solution is to modify the existing MD&A market risk disclosure requirements to be more comparable across entities. We recommend the FASB provide the SEC the user feedback compiled to date and allow the SEC to determine if more prescriptive MD&A market risk disclosure guidance should be developed.**

***All Respondents***

**Question 20:** The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why.

**We agree with the proposed scope.**

**Question 21:** Although the proposed amendments do not have an effective date, the Board intends to address the needs of users of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.

**We estimate it will take 12 to 18 months to prepare for and implement all of the proposed amendments. The liquidity gap maturity analysis, interest rate sensitivity analysis and repricing gap analysis will likely take the most time to implement while the issuance of time deposits and available liquid funds may take less time (approximately six to nine months).**

**Question 22:** Do you believe that any of the amendments in this proposed Update provide information that overlaps with the SEC's current disclosure requirements for public companies without providing incremental information? If yes, please identify which proposed amendments you believe overlap and discuss whether you believe that the costs in implementing the potentially overlapping amendments outweigh their benefits? Please explain why.

**Yes – As discussed above, we believe the proposed interest rate sensitivity analysis overlaps with existing MD&A market risk disclosure requirements while providing less clarity to a user regarding how most financial institutions manage interest rate risk. We recommend the FASB provide the SEC the user feedback compiled to date and allow the SEC to determine if more prescriptive MD&A market risk disclosure guidance should be developed. Additionally, we believe the FASB's proposed liquidity disclosures will provide a less meaningful and potentially confusing view of liquidity as compared to the efforts currently underway by the banking agencies. We recommend the FASB coordinate its efforts with those of the banking agencies to develop disclosure requirements that meet users' need for comparability and reflect how each entity monitors liquidity risk.**